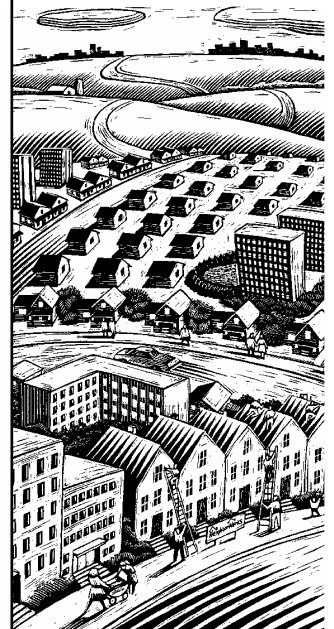


Strategies for Successfully Marketing and Stabilizing the Occupancy of Mixed-Income/Mixed-Race Properties

**A Case Study of Auburn Court, Phase 1 in
Cambridge, Massachusetts**

October 2005



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This work was funded by a Ford Foundation Grant from their “Flexible Capital” Grant Funding Programs for the Development or Preservation of Mixed-Income/Mixed-Race (MI/MR) Developments and Practical MI/MR Research Assessments. The grant was awarded to NeighborWorks® America who partnered with Abt Associates and Viva Consulting to conduct the study.

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Site at a Glance: Auburn Court (Phase I) in Cambridge, Massachusetts



Property	Residents	Neighborhood
<p>77 units, 1 to 3 Bedrooms</p> <p>31 Project-Based S8/LIHTC units 7 Moderate-Income units 39 Market-Rate units</p> <p>Built in 1995 - 1996 Owner: Brookline Street Limited Partnership Co-Sponsors: Cambridge Neighborhood Apartment Housing Services Inc. and Homeowners Rehab. Inc. Manager: Winn Residential</p> <ul style="list-style-type: none"> Consists of 3- and 4-story townhouse and garden style buildings plus a 6-story mid-rise building. One free parking space for each unit. Turnover rate in market units (37%) is lower than market norm (50 to 60%) and turnover is even lower in assisted units. 	<p>153 residents: 101 adults, 52 children 2004 Median Income: All: < \$46,000 2004 Median Income: Market:>\$80,000</p> <p><30% AMI*: 35% 30% to 59% AMI* : 16% 60% to 80% AMI*: 12% >80% of AMI*: 37% *Adjusted for family size</p> <p>34% Black 30% White 14% Hispanic 21% Asian</p> <ul style="list-style-type: none"> There are significantly more minorities and lower-income residents at site than in neighborhood, but neighborhood is also diverse. Among all adults, 77% are employed, 12% are college or graduate students, and 12% are unemployed. A slight majority of households have children (52%). 	<p>3,143 residents (census tract)</p> <p>2004 Tract Median Income: \$73,440</p> <p>15% poverty rate</p> <p>14% Black 64% White 8% Hispanic 9% Asian</p> <ul style="list-style-type: none"> Located in University Park at MIT, a 27-acre multi-use community of housing, offices, and shopping. Borders Cambridgeport, a slowly gentrifying neighborhood of predominantly 1 to 4 unit buildings in good condition. Close to busy Central Square with its banks, convenience stores, ethnic restaurants and transit stop.

Keys To Success

- Asset and property manager closely monitor rental market and adjust rents and incentives accordingly.
- Marketing activities and closing rates analyzed at monthly meetings and procedures quickly changed if not successful.
- Build and maintain quality housing with goal “anyone would want to live here.”
- Continuous focus on curb appeal to look as good or better than market-rate peers.
- Strategic use of funding sources to fund high quality design and keep rents affordable.
- Desirable neighborhood with nearby amenities and residents accustomed to racial diversity.

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Section 1: What Type of Mixed-Income Property is this and Why Does it Work?

Auburn Court is a 137-unit mixed-income, mixed-race property in Cambridge, Massachusetts. The property is nearly evenly divided between market-rate (34%) and moderate-rate (16%) units and low-income (50%) units. The surrounding community is an increasingly gentrifying mixed-use neighborhood with housing, offices, MIT research facilities, a hotel, and retail shopping. The property was completed in two phases because of the slow housing market in the mid-1990s. The first phase was completed in 1996 (77 units) and the second phase was completed in 2000 (60 units).

a. What Mixed Income/Mixed Race Model(s) Does This Property Typify?

Auburn Court represents several models of mixed income/mixed race properties.

1. Auburn Court is located within University Park, an area owned by the Massachusetts Institute of Technology and leased and developed by Forest City in Cambridge, Massachusetts. It is a typical “Eds & Meds” neighborhood¹ that was not initially supportive of MIT’s redevelopment plans. Determined community residents concerned about large-scale development that could be incompatible with the neighborhood became actively involved with the planning process to increase the amount of housing planned for the site. The final development plan called for 400 units of housing and a variety of commercial and university enterprises.
2. It is also located in a “hot real estate market” that supports gentrification. Although the Cambridge housing market was relatively soft during the early development stages, it picked up by the time Phase 1 was complete and was strong by the time Phase 2 was complete. The hot real estate market supports relatively high market rents allowing the owners to successfully balance their goals of meeting their financial obligations, providing affordable housing, and building reserves at a level that permits periodic capital upgrades.
3. It is in an area where inclusionary zoning was established to assure the creation of affordable rental housing. In 1988, after several years of struggle, the Cambridge City Council created a special zoning district for University Park that mandated that one-third of the housing units be affordable to moderate and low-income renters.

b. Why is Auburn Court a Successful Mixed Income/Mixed Race Property?

Auburn Court is successful because the developers and managers have combined sound real estate principles with a robust residential rental market in an already racially and economically diverse neighborhood

¹ A neighborhood anchored by educational and/or medical institutions.

1. The non-profit developer assembled a strong development, asset and property management team that *closely monitors the local rental market and adjusts their rents and incentives accordingly*. Rent levels and occupancy are reviewed at every monthly meeting and informal or formal market surveys are conducted anytime their occupancy or closing rate dips. The same team has been with the project since the beginning. Both the continuity and the efforts to stay on top of the market and adapt are led by the asset manager and are key parts of their success. For example, they took advantage of the fact that their units came on line during a time when the property could achieve higher rents than originally projected. They went after the higher rents. This set the project up to have additional operating resources, build their reserve, and still have a positive, though modest, bottom line to stabilize the property during market cycles.

The current market is a little softer. The current strategy is to charge slightly below market rents to maintain a high occupancy rate and avoid excess turnover or discounts. Furthermore, to reduce a trend of a higher number of lost rental days for each turnover unit, management started offering certain incentives for existing tenants to extend their lease. In the past few years, they also re-worked all their market leases to expire in the easier-to-rent spring and summer seasons. Their success is evident in a market-rate turnover rate that is 10 to 20 percentage points below market norms.

2. *Marketing activities and closing rates are closely monitored for success*. If the marketing effort is not drawing applicants or the closing rate decreases, the asset manager and the property manager collaborate to adjust the strategy. Initially, Apartment Guides and broker referrals were the primary source of applicants. Now word of mouth, walk/drive bys, and Internet advertising are the main sources. To encourage word of mouth, they offer a \$100 incentive for successful resident referrals. To capture as many qualified applicants as possible, property staff receive professional training, have some of their calls taped so they can review and self critique, and closing ratios and leasing techniques are reviewed at the monthly meetings.
3. Another key success strategy was to *build and maintain high quality housing under the mantra of “anyone would want to live here.”* The development team pushed for quality construction that has kept capital improvement costs low and has property features that are attractive to market and affordable renters. The features include extra soundproofing between floors, larger than average three-bedroom units, creation of private patio/balcony space, and a free on-site parking space for each unit.
4. A corresponding strategy is the management team’s *focus on continuous curb appeal upgrades*. They constantly work on landscaping, signage, and common areas in a manner consistent with their market-rate peers. Their goal, which continues to be achieved, is for it to be impossible to tell the property is mixed income.

5. *Strategic use of funding sources* is another important part of Auburn Court's success. Achieving the quality design they were after was expensive. However, the development team pulled together a complex financing scheme with more than 12 different sources of funding. They relied heavily on grants and soft loans to fund the development and keep hard debt a manageable proportion of operating revenue. They were also adaptable. Because sufficient funding was not available at the start of development and the market was slow, they changed their plan from building all the units at once to building in two phases that were completed 4 years apart. This allowed them to raise the money needed and maintain the standards they wanted for the development.
6. *Auburn Court also takes advantage of a desirable location for a MI/MR property.* Within a few blocks, there is a large super market, a busy shopping district, ethnic restaurants, banks, and a transit (T) station. Auburn Court is also in walking distance from MIT, convenient by bus to Boston's Longwood medical area and near a first-rate local elementary school. Furthermore, racial and economic diversity was already established in the neighborhood, so even though Auburn Court has more minorities and more lower-income residents than the surrounding community, the Auburn Court residents do not particularly stand out in the community.

c. What Hypotheses about Successful Mixed Income Housing Does This Property Support?

Auburn Court is a successful example of the following hypotheses about mixed-income housing.

1. *Mixed-income housing works best where there is intentionality on the part of the developer to see to it that the project mix works well.* The planned mix for Auburn Courts was 34 percent market-rate units, 16 percent moderate-income units, and 50 percent low-income units. The chosen mix enables a continuous range of income without a wide income boundary between the subsidized and unsubsidized renters. Maintenance of the low and moderate-rate units as affordable units for these income groups is fixed by the funding agreements to develop the property. To ensure no regression in the market rents, the management team focuses on curb appeal and interior updates that appeal to market-rate tenants and charge rents near the level of pure market-rate developments.
2. *Mixed-income housing in strong real estate markets allows for a wider mix of incomes than in weaker market areas.* Auburn Court takes advantage of its strong market and has a wide range of incomes. Household income, adjusted for family size, currently ranges from 0 percent of AMI to 175 percent of AMI with a 63-37 split between households below and above 80 percent of AMI.

3. *Mixed-income housing cannot be successful unless the fundamentals of real estate development are followed.* Auburn Court adopted excellent design and construction plans, developed realistic operating budgets and paid attention to revenue maximization from the start. Its location near many amenities and in a racially and economically diverse area was also sound for MI/MR housing.
4. *Mixed-income housing works best over the long run when every partner in the transaction has financial incentives focused on long-term success.* Auburn Court has several financial incentives for remaining as a quality mixed-income development. In Phase I (which is the source of the data in this case) some examples are:
 - The equity investor would lose annual tax credits of \$695,450 if the share of low-income renters dipped below the target rate in the first 15 years of occupancy. There has been no recapture of any credits because the owner and manager have complied with all required IRS provisions.
 - Original projections indicated that the owner and permanent lender would have to subsidize the project in the early years. However, by successfully increasing rents higher than original projections, neither the owner nor permanent lender had to provide this subsidy.
 - The management agent receives a management fee based on collections, rather than a flat fee per unit. This motivates the manager to keep units filled at the highest possible rent level without creating vacancies.
 - When cash flow allows, subordinate lenders receive modest payments on their notes in excess of the original pro forma.
5. *Mixed-income housing that is well designed, well operated and is located in a good neighborhood tends to have households with longer tenures and higher incomes.* While it is difficult to identify the precise reasons for the decrease in unemployment in the affordable tiers in Phase I (21 in 1996, 16 in 2000 and 11 in 2004), it is known that it has occurred in essentially the same households. Unit turnover is extremely low in the Section 8 households (an average of 1 household per year). The sponsor is clear that high standards in day-to-day operations are the cornerstone of resident retention and community stability.
6. *Mixed-income housing, like any housing, is most successful when the property manager carries out the owner's goals.* While Auburn Court has contracted with a very good property manager, the sponsor, largely through its asset manager, sets the operational goals for the properties and monitors performance regularly. The sponsor contends that this approach is key to Auburn Court's financial, physical and social successes.

Section 2: History of the Property

Auburn Court I and II contain 137 multifamily residential units located within University Park, a twenty-seven acre parcel in the Cambridgeport neighborhood of Cambridge, Massachusetts. University Park is owned by MIT and was developed by Cleveland-based Forest City Development as a mixed-use area with over 400 units of housing. Auburn Court is on the western boundary of University Park and abuts the Cambridgeport neighborhood that was very concerned about the impact the University Park redevelopment might have.

a. Development History

Auburn Court I was completed in 1996 and Auburn Court II was completed in 2000. The original intent was to develop all 137 units at the same time, but in the early 1990s the market was softening, there was little City of Cambridge subsidy available and a decision was made to develop Auburn Court in two phases. While the two phases have the same sponsors and are operated and marketed as one development, they maintain separate legal ownerships, budgets, rent rolls, and the like. Resident profiles and unit mixes are similar in each phase. Both phases have approximately 50 percent low-income units and the balance is divided between moderate and market units. The primary distinction is that the proportion of market units is greater in Phase I than in Phase II (40% versus 25%). For the purposes of this case study, data is analyzed primarily on Phase I where there is more historical data.

The development of affordable housing within University Park was the result of 25 years of determined effort on the part of Cambridgeport residents. In 1970 when MIT bought the 27 abandoned industrial acres then known as the Simplex site, neighborhood groups had wanted housing to be part of the development. When it became known that MIT's plan included limited housing, local residents organized and created a committee to serve as a vehicle for neighborhood input into the planning process. In 1988 after fifteen years of neighborhood involvement, the Cambridge City Council created a special zoning district for University Park that mandated that any development on the site include 400 units of housing – over one third of which were to be developed for low and moderate income residents.

The development's co-sponsors—Homeowner's Rehab. Inc. (HRI) and Cambridge Neighborhood Apartment Housing Services, Inc. (CNAHS)—had supported the affordable housing efforts of the neighborhood committee and began its role in the development of affordable housing in University Park as an advisor. After the City mandated a zoning district requiring 25 percent of the units for households with income less than 80 percent of the median and another 12 percent for households below 100 percent of the median, HRI was selected as the non-profit developer for Auburn Court. The goal of the developer and community was to use the zoning requirements as an affordability floor rather than ceiling, hence 91 of 137 rental units at Auburn Court were designated as affordable (69 low and 22 moderate). HRI and the architects met regularly with the neighborhood to gain consensus on the design of the housing and the development of the park (which includes public art) that is sited between Phase I and Phase II of Auburn Court.

b. Ownership and Management Team

The property is owned by Brookline Street Limited Partnership, which was formed in December 1991. The co-sponsors of Brookline Street Limited Partnership are HRI and its affiliate, CNAHS. CNAHS is a partnership of property owners, tenants, lending institutions and city officials. The Managing General Partner is HRI/Brookline Street Limited and Fannie Mae is the limited partner.

HRI was established in 1972 to create and preserve affordable housing for low and moderate income households in Cambridge, Massachusetts. HRI accomplishes this through programs that stabilize homeownership for existing owners through low interest renovation loans, create new homeownership opportunities for first-time homebuyers, and provide affordable rental housing. HRI has developed nearly 900 units of rental housing with CNAHS.

CNAHS concentrates on creating new and maintaining existing affordable housing. Its goal is to improve the condition of multi-family rental housing in Cambridge without causing the displacement of existing tenants. In order to meet this goal, CNAHS has created the Affordable Housing Rehab Loan Program. CNAHS was among those who provided gap financing on Auburn Court I.

The Brookline Partnership chose WinnResidential to manage Auburn Court. They have managed Auburn Court since it was developed and also manage the majority of the properties in HRI's managed portfolio. Overall, WinnResidential manages over 40,000 apartments and condominiums in 200 urban, suburban and rural locations. WinnResidential has a sophisticated Marketing Department that has provided expertise in marketing and rent-setting strategies to balance the sometimes competing occupancy and revenue maximization goals at Auburn Court.

Section 3: Property, Residents, and Neighborhood

a. Basic Property Information

Auburn Court I has 77 units in eight three- and four-story townhouse and garden style buildings clustered around private courtyards and one six-story elevator mid-rise building. There are 77 on-site parking spaces. There is an on-site management office as well as a laundry room in the mid-rise building. The townhouse and garden style units have pre-paid, card-access washers and dryers in each unit.

Auburn Court has focused on maintaining and promoting the property at the high standards to which it was developed. Unit and building design, finishes, capital improvements have all been intentionally geared to delivering and maintaining high quality housing.

As *Table 1* shows, Auburn Court has provided a mix of unit types across the income tiers.

Table 1: Unit and Income Mix: Auburn Court I

Unit Composition	1 BR	2 BR	3 BR	TOTALS	Percent
Project-Based Section 8 /LIHTC At or below 50% AMI	3	24	12	39	51%
Moderate: 80% to 100% of AMI	3	4	0	7	9%
Market	9	15	7	31	40%
TOTAL UNITS	15	43	19	77	100%

b. Resident Characteristics

Auburn Court I is a racially and economically diverse community where most adults are either working or going to school. (See Table 2.) More than half of the households include children, approximately two-thirds of whom are in single-parent families. Overall, the household types include single-parent families (36%), singles (29%), families with children (14%), and roommates (14%).² There are a total of 153 residents, an average of approximately two per household.

Racially, Auburn Court I has been almost evenly split between black (34%), white (30%), and non-black minority households (35%) since initial occupancy. The initial and ongoing mix has occurred through broad marketing and outreach efforts that have not been geared to any one group. As HRI staff reported, “It’s Cambridge. We knew Auburn Court would be mixed-race.” It was emphasized that the history and success of Cambridgeport’s racial, ethnic and economic diversity contributed to the ease with which Auburn Court has maintained this balance.

Household incomes at Auburn Court range from \$200 to \$130,000, or from 0 to 175 percent of area median income (AMI) adjusted for family size. Half of the units are restricted to low-income renters with income at or below 50 percent of the median (\$33,100 for family of two) at initial occupancy. These units are project-based Section 8 units, where the renter pays 30 percent of their income in rent. Over time, many of these households have found employment and some are at or above 50 percent of AMI. Cambridge is a “living wage” city, which boosts the wages of many low-income wage earners. Renters in the seven moderate-income units are income restricted (by the City) to 80 to 100 percent of AMI (\$52,950 to 66,200 for family of two) for eligibility and these residents also pay 30 percent of their income for rent. The moderate tier is fairly small and these households typically move to homeownership when their rent approximates a mortgage payment. This practice, in fact, was the original intent. Forty percent of the units are reserved for market-rate renters, who have no income restrictions as long as they can afford the rent. These renters generally have incomes between 100 and 150 percent of the AMI (\$66,200 to \$100,000).

² The household types are from a 2004 Auburn Court Management Report. At that time, 7 percent of the household types were unknown or the unit was vacant.

Nine-out-of-ten households have one or more members who work or are full time students. Most market residents are professionals (rather than students, retirees or health care workers, for example). Most of the affordable households have employment that is categorized as “general.”

Table 2: Resident Characteristics

Resident Characteristics	Numbers	Percentage
<ul style="list-style-type: none"> • Race/ethnicity of Households <ul style="list-style-type: none"> ○ Black ○ White ○ Asian ○ Hispanic ○ Vacant ○ TOTAL 	<p>26</p> <p>23</p> <p>16</p> <p>11</p> <p><u>1</u></p> <p>77</p>	<p>34%</p> <p>30%</p> <p>21%</p> <p>13%</p> <p><u>1%</u></p> <p>99%</p>
• Number of Residents	153	100%
• Number of children under 18	52	29%
• Number of households with at least one working adult	70	91%
• Median household income	<\$46,000	<63% of census tract median
• Market Households Median Income	>\$80,000	>109% of census tract median
• Households with incomes above \$73,440 (census tract median)	20	27%

c. Neighborhood Characteristics

Auburn Court is located in University Park at MIT – a unique community that contains apartments, a hotel and conference center, a shopping center, a large super market, restaurants, offices and research facilities. Within a few short blocks is the busy Central Square commercial district that is known for its ethnic restaurants and eclectic retail establishments. There is also a transit (T) station, banks, pharmacies and places of worship. Auburn Court is also close to a bus route that is convenient to Boston’s Longwood medical area as well as within easy walking distance of Massachusetts Institute of Technology.

Auburn Court borders and visually merges with the residential Cambridgeport neighborhood that contains a mix of single-family, townhouse, row and multifamily buildings. The most prevalent design is the two to four unit wood-frame multifamily building. The condition of the housing is generally sound and its upkeep is good. The most prevalent change has been in the conversion of rental units to condominiums. Once one of the most affordable neighborhoods in Cambridge, Cambridgeport has seen its rents and sales prices soar. While not as dramatically gentrified as some other greater Boston neighborhoods, it retains an ethnic, racial and economic diversity that continues to attract

academics, professionals and students. The neighborhood elementary school is well regarded and Auburn Court has attracted families who wish to send their children there.

Economically, the community has historically been a moderate to middle income community, although it has attracted more middle income households in recent years as the hot Boston-area housing market made other neighborhoods less affordable. In 2004, the median family income in Auburn Court's census tract was \$73,440 or 83 percent of the metropolitan area median. (See Table 3.)

Table 3: Summary Neighborhood (Census Tract) Information

Characteristic	Number
<i>Neighborhood Population</i>	
Number of Households	1,438
Number of Residents	3,143
<i>Neighborhood Income Levels</i>	
2004 HUD Estimated MSA Median Family Income	\$88,600
2004 Est. Tract Median Family Income	\$73,440
Tract Median Family Income %	83%
% Below Poverty Line	15%
<i>Race/Ethnicity</i>	
% Black	14%
% White (non-Hispanic)	64%
% Asian	9%
% Hispanic	8%
% Other race	5%
<i>Neighborhood Housing</i>	
Total Housing Units	1,487
Median Age of Housing Stock	57 years (1940s)
% owner occupied	31%
% renter occupied	68%
% vacant	1%

Racial Diversity Is An Established Neighborhood Reality

Cambridge is home to a culturally diverse population of over 95,000. Over fifty languages may be heard on the streets of the city, including Spanish, Creole, Portuguese, Chinese, Japanese, Amharic and Korean. Children from 82 different countries of origin attend the public schools. College students from around the world study at Harvard, MIT, and Lesley College.

Initially, Cambridgeport was a residential suburb of Boston and Central Square, at the intersection of many major thoroughfares. Over time, it became the commercial and administrative center of the city. Central Square peaked in influence and prestige between 1920 and 1950. After World War II, Cambridge's industrial base began to erode and its

population fell as veterans and their families moved to the suburbs. Like many American downtowns, Central Square suffered from lack of demand and an aging urban population. In the early 1990s, however, public investments in infrastructure, redevelopment of nearby industrial areas like University Park, and the repeal of rent control in 1994 brought revitalization to Central Square.

While Cambridgeport has historically been a predominantly white community, its diversity has grown over the last few decades. Non-white residents increased from 21 percent in 1980 to 36 percent in 2000 within Auburn Court's census tract (see Table 3). The property itself is 70 percent non-white, almost twice as high as the neighborhood.

Section 4: Initial Stabilization of Occupancy

Auburn Court I rented up in three months, ahead of schedule and under budget. The marketing team spent only \$50,000 of its \$75,000 budget. The key strategies for the success at initial occupancy are described below.

a. Quality Initial Design is an Integral Part of the Mixed-Income Strategy

The City had established Urban Design Guidelines for Auburn Court. These guidelines (separate entries, private open space, and proximity to public open space), although desirable for multifamily housing, increased costs and made it a challenge to raise funds for the affordable component of the development. In addition, architectural elements that dealt with varying building heights, the building walls, windows, visual and pedestrian access through the development, streetscape elements including paving, tree species and lighting were required and impacted the budget. It was also an express goal that Auburn Court's design incorporate a transition between Cambridgeport's residential neighborhood and University Park's large multi-use development.

In addition, specific design decisions were made that aligned with mission to provide mixed-income housing where anyone would want to live. These decisions included:

- Making the 3-BR apartments larger than typical affordable units to both better meet the housing needs of affordable families and to encourage resident retention by being more desirable than alternatives.
- Placing the three bedroom units on the ground floor and making them flats. While this was a cost saving measure, it also provided larger families highly desired unit access at the ground level.
- Creating private exterior spaces for most units, whether a patio, balcony or porch. These have proven to be important amenities.
- Providing washing machines and dryers in all apartments (except in the mid-rise where there is a laundry room). The machines are operated by card access, which can be replenished in the management office. Not only are these very important amenities, but Auburn Court also generates income from them.

- Soundproofing at key adjoining unit wall and floor/ceiling locations.
- Providing high quality interior finishes originally and planning their budget so they could make improvements during occupancy as the market dictates.

b. Strong market, quality product, detailed marketing plan and skilled team are ALL key

There were essentially two marketing plans: one for the affordable units through the Cambridge Housing Authority and one for the market and moderate units through traditional marketing means (newspapers, Apartment Guides, brokers).

There were and remain many ingredients in Auburn Court I's initial and ongoing marketing success. The market and the quality of the product are important factors and it would be easy to say the units "rent themselves." But both the owner and manager reported that marketing the property requires constant vigilance and is "hard work" to achieve the twin goals of high occupancy and rent maximization. Key elements of that work were a clear affordable marketing plan, a "high performing" public housing authority administering the affordable units, an overall marketing outline and a detailed marketing budget. The owner/management team was also very pro-active about constantly refining the marketing strategy. The management agent was very successful attracting and leasing units to applicants. The following techniques were used:

- Initial marketing included some corporate imaging and branding. A logo was developed that was used on signage, stationery and brochures. Attractive collaterals were developed including brochures and floor plans for all income tiers.
- Marketing vehicles were used that were most successful at the time, such as the Apartment Guide (techniques have changed somewhat – see Section 4 on maintaining high occupancy rates).
- Brokers were used.
- Leasing and management staff are trained to routinely treat everyone professionally and they receive specific training in successful marketing techniques.
- Office and staff are always required to present a professional appearance.
- Ongoing marketing studies and shopping the competition influenced staff's knowledge of the market and influenced pricing.
- The CHA partnered well with WinnResidential in identifying and selecting applicants for the affordable units.

HRI also assembled a strong development, asset and property management team that understood and continues to understand its market, and adapts constantly. The same team has been with the project since the beginning. They had the skills to access a variety of sources of funding, develop budgets that allowed additional operating resources while still maintaining a healthy bottom line, develop an quality affordable housing project that is appealing to market-rate renters, and analyze and make necessary

adjustments to their rent levels, marketing strategies, and market appeal. The Executive Director believes this is the number one reason Auburn Court has been so successful.

c. Promote the concept: “Anyone would want to live here!”

The value proposition from the beginning has been “anyone would want to live here” and everything is geared to making this so - from site and unit design to curb appeal to professional and courteous full service on-site property management. They strive for the same level of professional management and site appearance as a 100-percent market-rate development.

Their policies can be interpreted as aiming for market-rate quality housing that also has affordable units set aside for low and moderate-income households (rather than affordable housing with some unrestricted income units). Consistent with the implicit goal of providing housing indistinguishable from their market-rate peers, there is an explicit practice of not identifying income groups or having activities at the site that are for any particular income group. They also have a specific strategy of not mentioning the mixed-income nature of Auburn Court during marketing. “Mixed-income” does not appear in the marketing materials. However, when and if there are inquiries, it is explained.

Section 5: Maintaining High Occupancy Rates and Profitability

In all aspects of operations and property management, the Auburn Court team works by monitoring results, analyzing what is working and what is not, and makes adjustments.

a. Rent Setting Strategies are Revised Continuously to Keep Occupancy and Demand High

From the beginning, Auburn Court has carefully monitored the rents (continuously seeking a balance that maximizes rents while achieving full occupancy) in all its income tiers. In the moderate tier this can be challenging since moderate applicants must be in the 80 to 100 percent of AMI range. However, their rent is 30 percent of their income regardless of their income in this range. Recently, new moderate tenants have been closer to 80 percent of AMI than 100 percent of AMI. The low-income LIHTC units (below 50% of AMI) are filled by referrals from the Cambridge Housing Authority (CHA) waiting list. The CHA administers the project-based Section 8 contract attached to these units and there is a very good relationship between Winn, HRI and the CHA to fill vacancies expeditiously. The gross rent (tenant + CHA portion) for these units is set at the contract rent, which is currently approximately the same as what HUD has designated for Fair Market Rents in the Boston area. They are considerably below the market-rate levels. Households in the moderate-income units (80 to 100% of AMI), pay up to 30 percent of their income in rent, which on average is currently about the same gross rent as in the Section 8 units (these rents range from \$741 to \$1407).

For the market-rate units, the owner and manager are very focused on the mutual goals of maximizing rents and tenant retention and spend time at each month meeting adjusting their strategies to this end. In Auburn Court's early years, when the rental market was hot, market rents were pushed as high as they would go. More recently, with a softer rental market, market rents are set a bit below the market (See Table 4). Rent includes a parking space, a valuable amenity in this neighborhood, and renewal rents are somewhat less than turnovers. The strategy works: In 2004 the average market turnover rate was 37 percent compared to the general market norm of 50 percent. Turnovers are less in the moderate units (29%) and rare in the low-income affordable units (0%). These yield a 27 percent annual turnover rate across the property.

Table 4: 2004 Rent Schedule at Auburn Court I

Unit Size	Sec 8 Contract Rents (current)	HUD FMRs (FY2005)	Moderate Rents Current	Moderate Rents Turnover	Market Rents Current	Market Rents Turnover	Market Comps (2004)
1 BR/ 1 Bath	968	1077	741 – 1037	30% of 80% to 100% of AMI	1227 – 1850	1900	1800 – 2350 + parking @ \$75 - \$150/mo
2 BR/ 1 Bath	1,287	1266	1216 - 1407	30% of 80% to 100% of AMI	1675 – 2350	2350	2125 – 2825 + parking @ \$75 - \$150/ month
3 BR/ 1 Bath	1,606	1513	N/A	30% of 80% to 100% of AMI	1875 – 2550	2550	2790

Note: Market comparability study prepared by WinnResidential in 2004.

The rent-setting strategy appears to be successful in terms of maintaining high occupancy rates and meeting or exceeding their revenue and replacement reserve goals. The residential rental market started softening in 2001 and Auburn Court fared well despite the downturn. Vacancies were 0.7 percent in 1998 then peaked at 2.7 percent in 2003 before coming down to approximately 2 percent in 2004. And, as discussed in Section 6, the net operating income meets or exceeds their proforma budget.

b. “It’s All About Asset Management”

Sustaining Auburn Court as a successful housing development is paramount. This means creating sufficient cash flow to deliver on promises to subordinate lenders, building not only a replacement but a painting reserve, investing capital in some property upgrades such as adding back stair treads and carpeting to the stairwells (they were eliminated during “value engineering” in the development stage). It means monthly meetings of the owner, asset manager and three key staff of the management company (the Auburn Court property manager, the Senior Property Manager for the HRI portfolio and the Regional

Manager). All have been with the property for a long time and are able to not only refine marketing strategies and analyze financial performance but also identify and nip problems in the bud. That also means not waiting until the monthly meeting if something needs immediate attention.

c. Capture All The Qualified Applicants

Auburn Court rents to 65 percent of those who inquire about the property. This includes people doing market surveys (the asset manager estimates there are 30 such inquiries annually). However, once an applicant comes to the property for a “tour,” the “capture rate” or “closing ratio” increases significantly to 90 percent or more. Leasing staff state that “If we can get them to the site, we can rent to them.” Staff receive regular support from WinnResidential’s marketing division. Examples include:

- Training to become certified by the National Association of Leasing Professionals
- Use of a service to identify which ads have been most effective and to improve staff rental effectiveness by arranging for staff to critique themselves on the phone with prospective residents. While there is not a set schedule for self-critiquing, it is likely to occur when closing ratios fall.
- Engaging motivational speakers at the company’s annual meeting
- Help in refocusing staff when closing ratios drop
- Creating marketing materials; placing ads

Leasing techniques and results are discussed at every monthly meeting of the property manager/asset manager/owner. Closing ratio information is tracked and reported monthly to the marketing and supervisory staff of the management company.

Furthermore, while a formal waiting list is not maintained on the moderate and market units, staff follow up with interested applicants who inquire about renting in a future month. The manager maintains guest cards on potential moderate and market applicants who have requested occupancy in a certain month and contacts them when an appropriate unit becomes available. (The affordable units are filled from the Cambridge Housing Authority’s waiting list, which has been closed for some time.)

d. Constantly Refine the Marketing Strategy to Stay Occupied

At Auburn Court, keeping units occupied and constantly refining the strategies to achieve that goal are what it is all about. While the Apartment Guide and broker referrals were the primary source of market and moderate income applicants initially, the following are more likely to produce applicants today:

- Word of mouth
- Walking/driving by

- The internet (e.g., Craig's List, Rent.com, Homestore.net)
- Advertising in The Metro, a free commuter paper

Because word-of-mouth is a good source of renters, management pays \$100 to any resident who makes a successful referral. Bonuses are also paid to leasing agents. While its expensive, they may place line or display ads in the Boston Globe in particularly slow times.

Depending on the softness of the market, concessions may be offered. In 2003 – 2004 a lot of time was spent “getting the rent right” without offering incentives. This seems to be working. Competitors have higher rents and deeper concessions, but renters find this not only confusing, but often move when the concession discount expires, particularly if the concession has been significant. Auburn Court believes it is benefiting from its understandable rents and the fact that a parking space is included in the rent Auburn Court is also proactive about making itself known at local universities (Auburn Court is popular with MBA students from nearby MIT's Sloan School and is identified in its housing materials) as well as employers (such as hotels and the airport whose employees are often very good moderate income prospects).

To make it easier to rent turnover units, Auburn Court management has recently revised its leasing policy on market units requiring that they come up for renewal in the spring and summer months when it is easier to rent them.

Auburn Court is also increasingly focused on resident retention. In 2004 there were 21 turnovers. While it took only 1 day on average to prepare a unit for re-occupancy (assuming no unit upgrades or major repairs), the average number of days without rent per turnover in the last 6 months of 2004 was 56 days. It is estimated that the cost of each turnover approximates \$5,000 in lost rent and the cost to prepare it for the next resident. Now, at lease renewal, residents are offered the option of having the carpet shampooed, the oven cleaned or the kitchen floor polished. The most popular option today is having the kitchen floor polished.

e. Upgrades to Keep up with Market Peers

The ownership and management team at Auburn Court is committed to keeping the development on par with their market-rate peers. By obtaining development financing that did not overburden the development with debt and by carefully managing their rent and occupancy levels, they have been able to afford to make modest upgrades over time.

For example, initially, there were no finishes in the common area stairwells in the low-rise buildings. Recently, the concrete stairs and white walls were replaced with attractive carpeting, stair treads, and complementary paint on the walls and handrails.

They are also making market upgrades to Phase I units of Auburn Court, including upgrades they were able to incorporate in Phase II, which was completed 4 years later. For example, ceramic tile was installed in the bathrooms in Phase II and is being installed at turnover in

Phase I. Microwaves were introduced in Phase II and are being installed in Phase I at turnover. In addition, kitchen counters and floors are being updated at turnover in Phase I.

The management team also focuses on curb appeal, so that residents and applicants always get the impression of a high quality property. For curb appeal, they continuously work on landscaping, signage, office placement and office furnishings, including updating window treatments.

f. Foster Resident Satisfaction with Services any Resident Would Want

There is no Resident Association, few organized resident activities (those that are offered occur occasionally and have modest attendance) and no resident services coordinator. Nonetheless, Auburn Court focuses heavily on resident satisfaction. It does this by delivering a quality housing product with beautifully landscaped grounds and a small public park, providing a one-day maintenance service guarantee program, effectively monitoring and correcting problem behavior and when appropriate, referring household members to available social service agencies.

Section 6: Financing Sources and Costs

Obtaining financing for a mixed-income project that allows for realistic debt repayment levels is key, but can result in complicated multi-layered financial arrangements. HRI had to access numerous sources to make Auburn Court a reality.

a. Complicated Financing Reflects Development Skill and Persistence Required to Acquire Enough Resources

Auburn Court was determined from the start to build a quality product that reflected its values and was still responsive to the demands and interests of its many stakeholders. Its very seasoned development staff was key at this stage. The funding arrangements for Auburn Court I represented a partnership with a large number of funding sources as follows:

Gap Financing

- City of Cambridge CDBG and Affordable Housing Trust
- Department of Housing and Urban Development (HUD)
- Department of Housing and Community Development (state)
- Cambridge Neighborhood Housing Apartment Services, Inc. through Neighborhood Reinvestment Corporation (NRC)

Construction Financing

- MassHousing
- Federal Home Loan Bank of Boston in conjunction with Cambridgeport Bank

Bridge Financing

- Massachusetts Housing Partnership Fund

Permanent Financing

- MassHousing
- Mass Government Land Bank

Limited Partner – Equity Investor

- Federal National Mortgage Association

Low Income Housing Tax Credits

- State Department of Housing and Community Development (DHCD)

Rental Subsidies

- Cambridge Housing Authority
- Department of Housing and Urban Development (HUD)

Predevelopment Funding

- Local Initiatives Support Corp. (LISC)
- Community Economic Development Assistance Corp. (CEDAC)
- Neighborhood Reinvestment Corporation (now called NeighborWorks America), Neighborhood Development Support Collaborative, the Hyams Foundation, the Riley Foundation, Lotus Development Corp., Bank of Boston, Boston Globe Foundation, and Shawmut Bank, N.A.
- MIT/Forest City (reduced sales price)

b. Development Costs

It cost \$158,139 per unit to develop Auburn Court I. This was a somewhat higher than typical cost for the time. However, the regulatory and approval process took years, prevailing wages were required, and there were significant site remediation issues. All of these issues, as well as the emphasis on quality construction, contributed to the higher than average cost.

Table 5: *Development Cost Information: Auburn Court I*

Development Cost Information	Amount	Percent of Total	Cost Per Unit
Site acquisition/prior site dev fees	346,500	3%	4,500
Site Improvements/Construction	9,496,276	78%	123,328
Public Improvements	Included		
Total Soft Costs incl. Reserves, OH & Fee	1,244,814	10%	16,166
Construction fees (A/E Clerk, survey, permits, contingency costs)	1,089,082	9%	14,144
Total Development Costs	12,176,672³	100%	158,139

c. NOI Regularly Beats Proforma; Investors Targeted for Repayments

Auburn Court I has consistently beat the Net Operating Income (NOI) in its initial proforma operating budget. While both its revenues and operating expenses have been higher than originally projected, the revenues have increased at a greater dollar amount than the expenses. This, in turn, has enabled the development to do slightly better than the proforma for cash flow. These results are attributed to both good property and asset management.

There was an additional declining subsidy built into the property for the first twelve years, but it has only used once in 1998 and then at much less than projected for that year (see MHFA and Owner subsidy lines in *Table 6* below).

Table 6: *Change in Revenues, Rent Loss and Associated Marketing Expenses Over Time: Comparison of initial projections vs. actuals (in dollars)*

	1998 projected	1998 actual	1999 projected	1999 actual	2003 projected	2003 actual
Gross Rental Revenues	943,596	1,042,985	981,339	1,111,438	1,148,028	1,387,047
- Vacancies	(47,801)	(7,801)	(49,713)	(6,531)	(58,157)	(37,444)
+ MHFA Subsidy	75,000	14,541	75,000		36,821	
+ Owner Subsidy	38,498		23,955			
- Bad Debts		(0)		(0)		(1,179)
+ Other Income	3,792	83,640	3,982	86,828	4,840	28,186
= Effective Rental Income	1,013,085	1,133,365	1,034,564	1,191,735	1,131,532	1,376,610

³ Auburn Court II, completed 4 years later, had a total development cost of \$205,730 per unit.

	1998 projected	1998 actual	1999 projected	1999 actual	2003 projected	2003 actual
- Legal		(3,243)		(9,269)		(3,747)
- Marketing		(2,725)		(3,467)		(37,009)
- Decorating		(39,478)		(29,411)		(20,492)
- Total Other Operating Expenses	(414,247)	(463,651)	(434,423)	(500,998)	(525,491)	(586,628)
- Replacement Reserve	(26,073)	(26,150)	(27,376)	(26,684)	(33,276)	(32,688)
= NOI	572,765	598,118	572,765	621,906	572,765	696,049
- Hard Debt	(520,695)	(542,564)	(520,695)	(541,140)	(520,695)	(538,546)
= Cash flow	52,070	1,469	52,070	26,917	52,070	75,213
Some Secondary Debt		(54,085)		(53,849)		(59,740)
- Capital Improvements or R/R Expenses	0	0	0	0	0	(22,550)

Auburn Court experiences virtually no problems with rent collections and its vacancies are significantly less than projected. In its earliest years when the rental market was very strong, Auburn Court had few vacancies and spent little on marketing. By 2003 the vacancies were higher (but still below projections) and marketing efforts were increased commensurately.

Because so much care was taken with the original design and materials, there has been little call on replacement reserve funds for capital improvements and the focus was on building the reserve. After seven years of operation the replacement reserve balance had grown to \$262,456 (\$3,409 per unit) by the end of 2003. As a result, in 2004, there were funds available to undertake the upgrades to the common area stairwells described earlier.